DOCUMENT RESUME

ED 257 188 EA 017 729

TITLE	State Aid: What Difference Does It Make?
INSTITUTION	Vermont Governor's Office, Montpelier.; Vermont State Board of Education, Montpelier.; Vermont State Dept. of Education, Montpelier.
PUB DATE	Apr 85
NOTE	26p.
PUB TYPE	Reports - Evaluative/Feasibility (142) -- Viewpoints (120)
EDRS PRICE	MF01/PC02 Plus Postage.
DESCRIPTORS	Community Resources; *Educational Equity (Finance); *Educational History; Elementary Secondary Education; *Equal Education; Equalization Aid; *Finance Reform; Property Taxes; *School Funds; School Taxes; *State Aid; State School District Relationship; Tax Allocation; Tax Effort; Tax Rates
IDENTIFIERS	*Vermont

ABSTRACT

To provoke public discussion about the role state aid should play in Vermont public education and to make a case for a state aid system structured on the broad principles of equal opportunity, fair tax burdens, and adequate funding levels, this booklet examines Vermont's system of school finance, attempting to highlight its history and its present strengths and weaknesses. The opening pages include a preface, a list of five basic truths about Vermont school finance, and an introduction. The first section, "Does State Aid Make a Difference?", is illustrated with several graphs and figures. Other sections discuss the history of state aid in Vermont, student equity and fair tax burdens, and principles to guide state aid reform. An appendix provides an explanation of how Vermont's present state aid formula works. (DCS)

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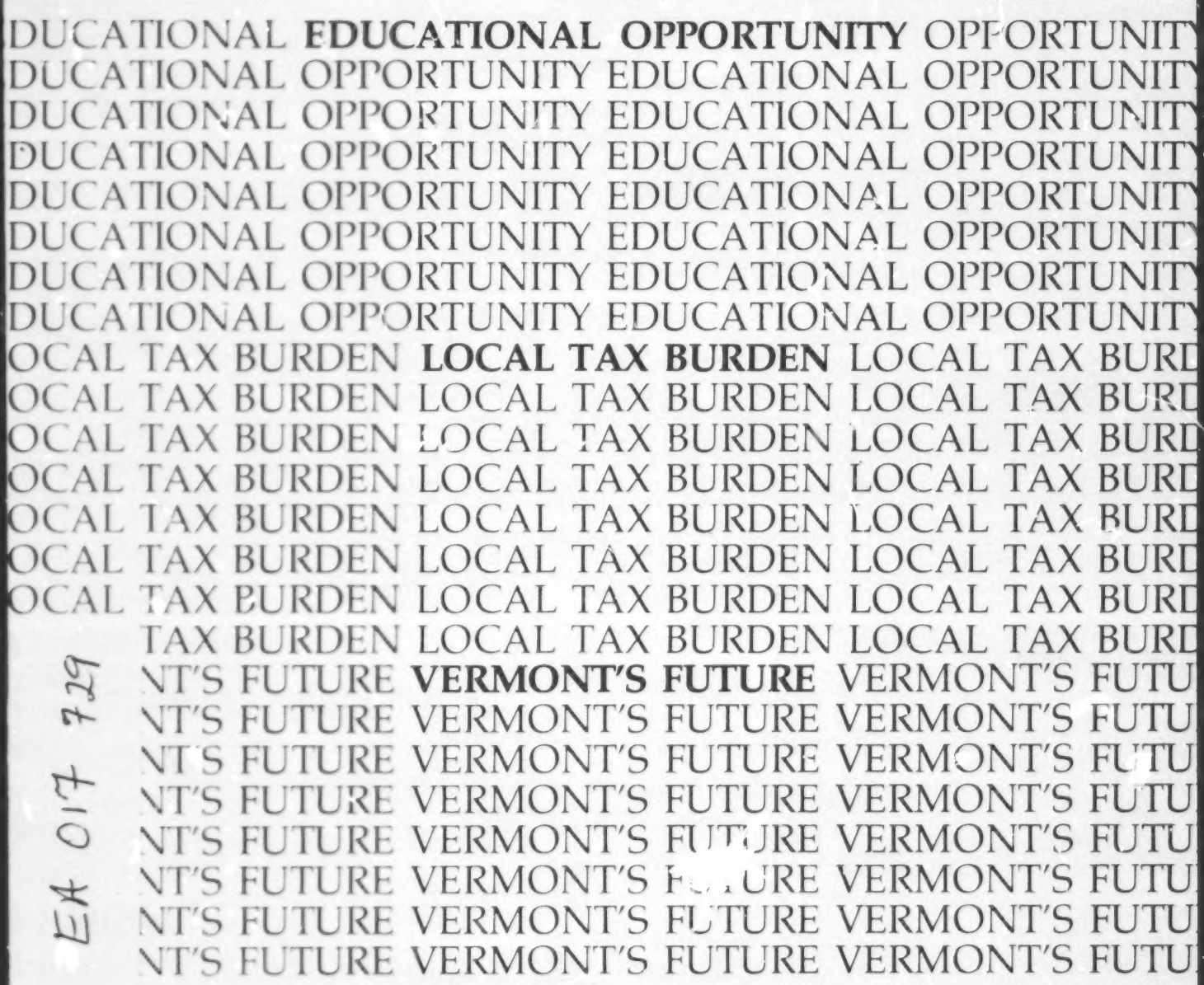
State Aid

What Difference Does It Make?



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PREFACE

The title of this booklet, "State Aid: What Difference Does It Make?", seems particularly appropriate at this time. Increasingly, criticisms are being voiced about Vermont's system of state aid. Some maintain that state aid doesn't make a difference. Others argue that it makes a difference, but not enough. While many of the criticisms are valid, others, based on misinformation, miss the mark.

The purpose of this booklet is to examine Vermont's system of school finance in an attempt to highlight its history, and its present strengths and weaknesses. In doing this, we hope to provoke public discussion about the role state aid should play in prompting greater educational opportunities for the state's children.

It is imperative that this type of constructive debate begin now, since the Morse-Giuliani formula "sunsets" in 1987.

The Governor and State Board of Education hope that this information booklet, along with the scheduled public forums on state aid in May, 1985, will serve to initiate the discussion and focus the research needed to lay the groundwork for the decisions to be made about the future of state aid in Vermont. This venture will only be successful if those who are interested take an active role in the process. Only through a cooperative effort, can we hope to structure a system of state aid that will provide local schools with the type of state support that they need and deserve.

BASIC TRUTHS ABOUT VERMONT SCHOOL FINANCE

Truth One:
In Vermont, the state government's share of education expenditures is lower than it is in almost all other states.

This means that while Vermont spends at nearly the national average to educate its children, most of the burden falls on local communities.

Truth Two:
While state education spending has increased over the years, it has not kept pace with local education spending. Also, it barely has matched the rise in the cost of living.

Once again, this means that local communities have had to carry most of the burden of expanded education programs *and* spending on education.

Truth Three:
Many students would not have access to an adequate education without state financial help.

State aid to schools is an essential component of the revenues needed to support schools in many communities.

Truth Four:
Some wealthy districts can support high levels of education services at relatively low levels of tax effort.

There are some districts in Vermont that have such a large local wealth base to draw from that they simply do not require state financial support.

Truth Five:
Each year, education spending increases in Vermont, and as long as this remains true, somebody has to pick up the tab.

The choice, as it stands now, is whether the bill is paid from local property tax receipts or from state revenues, where broad-based taxes can be tapped.

Table of Contents

Introduction	1
Does State Aid Make a Difference?	2
History of State Aid in Vermont	9
Student Equity and Fair Tax Burdens	11
Conclusion: Principles to Guide State Aid Reform	18
Appendix: How Does Vermont's Present State Aid Formula Work?: An Explanation	19

INTRODUCTION

Vermonters have a strong commitment to public education. There are many communities in the state that tax themselves heavily to provide good schools for their children. The commitment also is felt in the personal attachment many citizens feel toward their schools. Few states have managed to maintain this type of close relationship between communities and their schools.

The problem is that local tax effort and a feeling of identification with one's school is *not* enough to ensure good schools. This is because many communities in Vermont cannot support, by themselves, a good education for their children. These communities would have to tax themselves at excessively high levels to provide the school buildings and professional staff necessary to educate a child for tomorrow's world.

Realizing this fact, Vermont has long maintained a system of revenue subsidies for local schools. The cornerstone of the system is state equalization aid, better known simply as state aid.

Today, as has often been the case in the past, state aid is coming under increasing public scrutiny. There are charges that the system is misdirected, unfair, and generally in need of repair.

This booklet examines state aid to see what difference it makes for the education of Vermont's children.

DOES STATE AID MAKE A DIFFERENCE?

Vermont's commitment to education is reflected in the fact that while the state is considerably less wealthy than the nation taken as a whole, Vermonters spend as much or more on educating their children as most other states. Vermont ranked 36th in the nation in per capita income in 1981-82, while it was 21st in education spending.

Those figures, as important as they are, mask a real and disturbing trend in Vermont. In a period when schools have been asked to take on more (and difficult) tasks, spending has barely kept pace with inflation. Over the course of the last decade, total dollars spent on elementary and secondary education in Vermont have increased an impressive 110 percent, from $155 million to an estimated $325 million between FY 1976 and FY 1985. However, when the declining value of the dollar is considered, spending on education failed to match the increase in the consumer price index in five of the last nine years. The $303 million expended on education in FY 1984 was worth only $163 million in 1976 dollars, an increase of only five percent (Figure 1 and Table 1).

Who Pays The Education Bill?

Although there are a number of reasons for the erosion in Vermont's position, one fact is clear. Vermont has relied much more on local property tax efforts to support education than most other states. Nationally, state support of elementary-secondary expenditures hovers at around 50 percent, while in Vermont it is a little more than one-third of all expenditures. In the United States in the 1982-83 school year, state support per pupil averaged $1611. In Vermont, the comparable figure for all education programs, including state aid, vocational education, special education, and adult education, was $1149, nearly $500 lower.

Implicit at the time of the passage in 1969 of the Miller formula, was a state commitment to support forty percent of education expenditures. As Figure 2 makes clear, that level of support has never been achieved, whether considering total education expenses or only state aid — not even in the first year of the Miller formula. In fact, with few exceptions, the gap has grown over the course of the last 17 years because state support has not been sufficient to meet its commitments of ensuring adequate local educational opportunity and to relieve the pressure on local taxes.

Figure 3 depicts the changing levels of support for elementary and secondary education as provided by local communities and state equalization aid to education. The graph is indexed so that 1976 is the base year, representing spending for education in that year as 1.00.

TABLE 1: Education Expenditure in Vermont, 1976-1985

Total State and Local in Current & Constant (1976) Dollars
Millions of Dollars

Fiscal Year	Total		Local		General State Aid		Total State Spending	
	Current $	Constant $	Current $	Constant $	Current $	Constant $	Current $	Constant $
1976	155	155	96	96	34	34	45	45
1977	168	156	104	97	34	32	49	46
1978	183	160	114	99	36	31	53	46
1979	199	159	124	99	39	31	58	46
1980	216	152	136	96	40	28	65	46
1981	239	151	150	95	42	26	71	45
1982	254	151	167	97	43	25	72	42
1983	278	155	164	91	65	36	100	56
1984	303	163	184	99	68	36	103	55
1985**	325*	171*	205	106	71	37	108	56

*Estimated. **Assumes an inflation rate of 3.5 percent for 1985.

FIGURE 1: Total Educational Expenditures
FY 1976-1985, Vermont

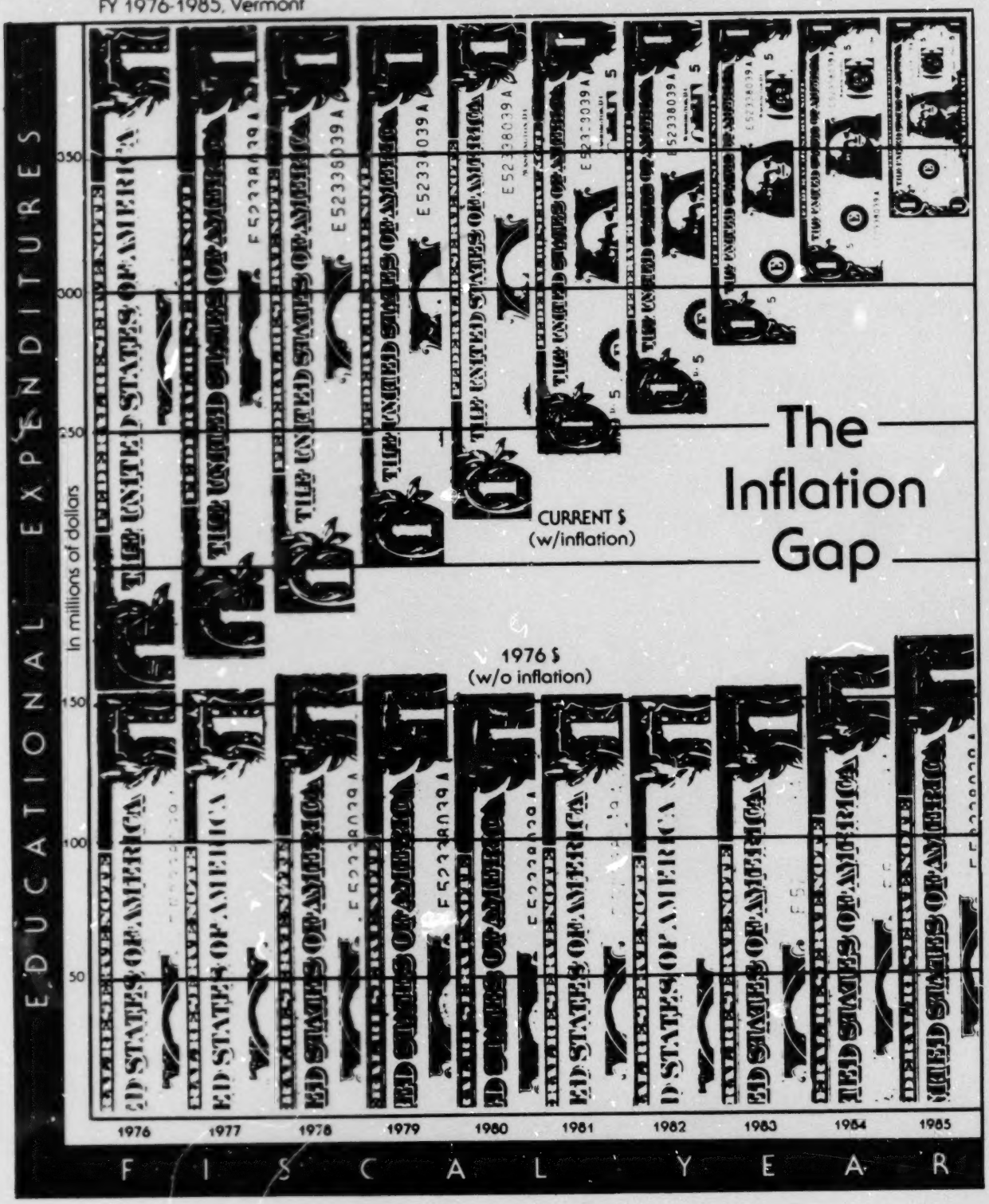

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FIGURE 2: General State Aid

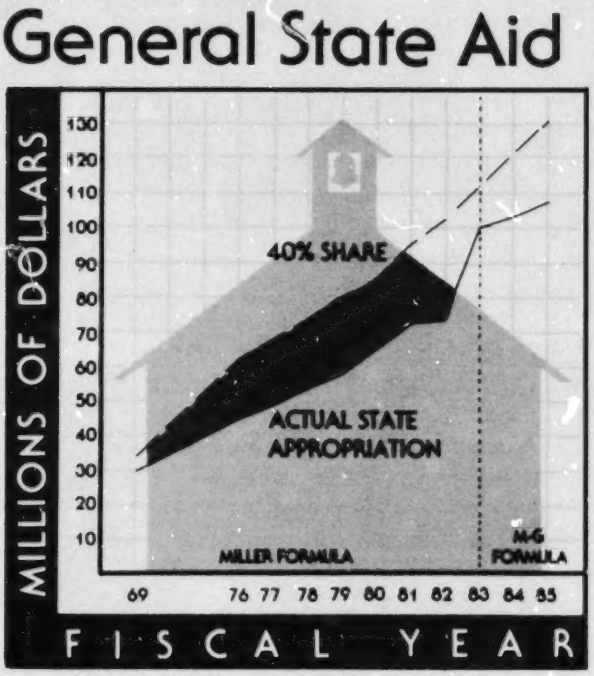
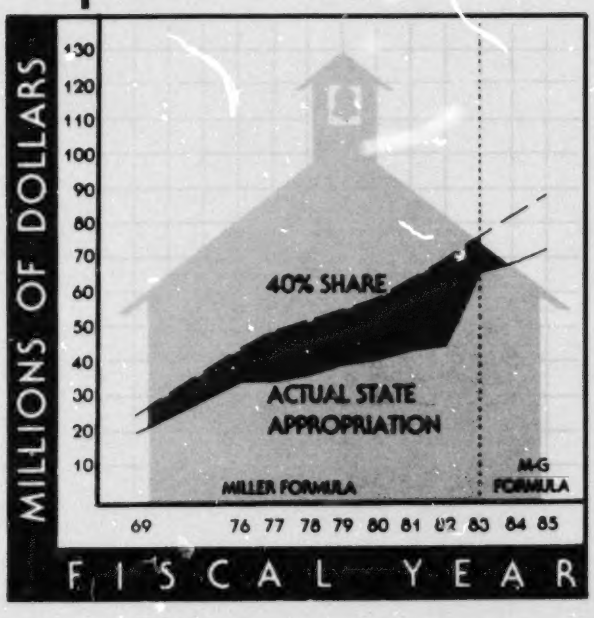


FIGURE 2: General State Aid plus Vocational Education Grants, SPED Grants, Adult Education and Other Spending



Deviations from that figure reflect increases or decreases in spending after inflation has been considered. Thus, after controlling for inflation, spending by local communities for education increased three percent between 1976 and 1977, while state aid in constant dollars decreased by nearly six percent.

By 1982 the value of general state aid had fallen to 73 percent of its 1976 worth. Local spending in that year was one percent higher than it had been in 1976, once inflation has been accounted for.

The graph makes abundantly clear that the burden of funding education has fallen increasingly on local communities. It was not until the advent of Morse-Giuliani three years ago that general state aid in constant dollars achieved the level reached a decade ago. Vermont's cities and towns, on the other hand, have, with the exception of only two years, spent at or above the level at which they supported education in 1976.

The bill for education has to be paid. The question of who is responsible has been traditionally framed in terms of local versus state responsibility. There is, however, another perspective on the issue. Taxpayers pay the bill, whether through their local governments or their state government. The same people pay, but in different ways. If paid at the local level, they pay as property taxpayers; if paid at the state level, they pay as consumers through the sales tax, as wage earners through the income tax, or through a variety of other broad-based taxes that make up the General Fund.

Figure 3 shows that whether through inaction or conscious design, the state, by falling further and further behind, has shifted the burden from one class of taxpayer to another — from the payer of broad-based taxes to the payer of the more narrowly based property tax. The ensuing discussion will make clear that the issue is not a black and white one of rich towns versus poor towns, for there are districts in the broad middle exerting a real effort to provide their children with a quality education. These towns suffer, along with the poorer towns, when the relative level of state aid declines.

As state support for public education wanes, there is less equalization aid available and more and more school districts are considered too wealthy to be on the formula — that is, to be eligible for equalization aid. This puts even more pressure on those communities. This is what happened under the Miller formula when the decline in support made 104 of 251 school districts ineligible for equalization aid. The situation today is not as bad as then, but trends are pointing in the same ominous direction. In FY 1983, there were 70 towns off

the formula; in FY 1985, there are 76. In 1983, a district had to be 36 percent more wealthy than the state average to be ineligible, while in 1985 the comparable figure is 25 percent. In 1983, the average district received more than 26 percent of its eligible expenses as state aid. In 1985, this figure is 20 percent.

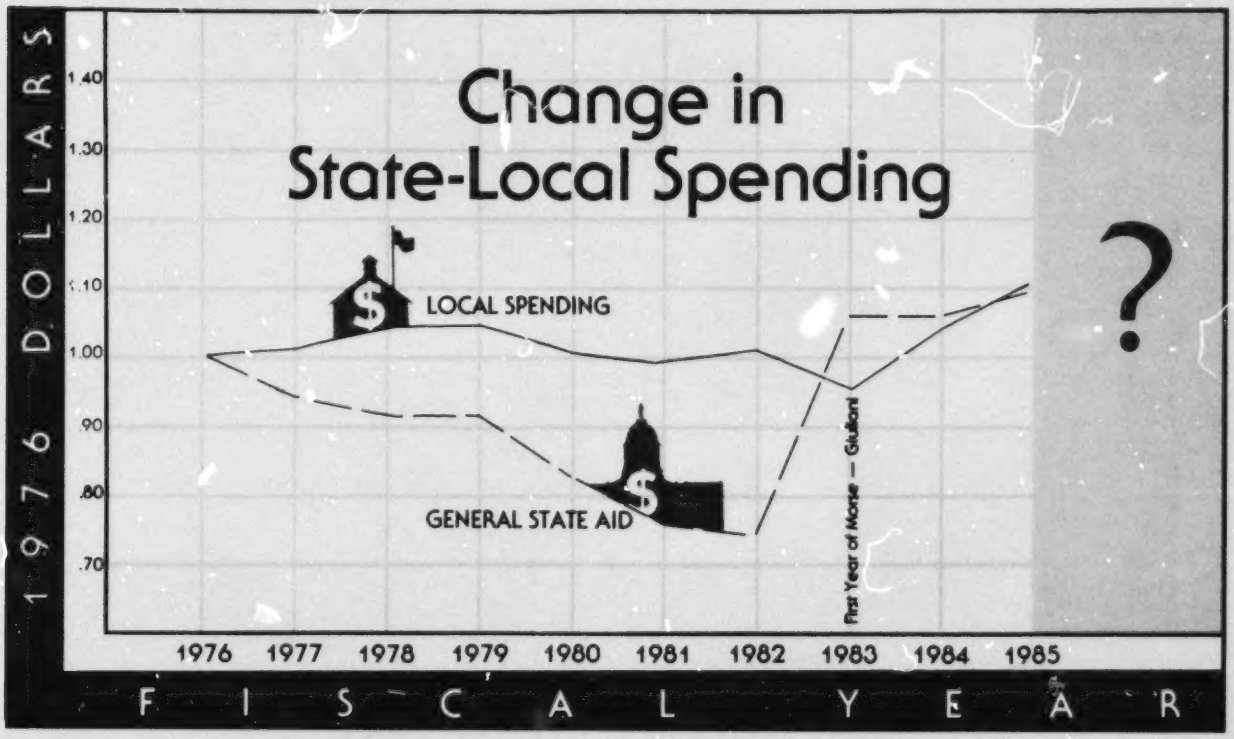
As state aid declines, as a percent of total education costs, local wealth becomes an increasingly important determinant of the level of school spending. There are, of course, some towns that do not require state aid —towns whose tax base is so great they can pay for a quality education for their children without assistance. For others, however, declining aid makes increasing or even maintaining school budgets a difficult process. The warning signs are already here. In the past year several school budgets have had to go to three, and at least in one instance, a fourth vote, before they were approved by local voters. In some districts, academic programs, including mathematics, science, art, physical education, guidance and library positions, have been cut to the point where the quality of education is severely threatened. Students in those districts are not receiving an education comparable to children who live in wealthier districts with ample revenues. Worse yet, once expectations about spending become established in the minds of local taxpayers, it becomes difficult to persuade them to increase spending, even if state aid rises at some later date.

Wealth and Spending

In considering how state aid makes a difference, four factors are of prime importance — spending, wealth, tax effort, and funding levels. The following examples will make clear that the system, as it currently operates, does not fully meet the requisites of an effective state aid system.

Education spending varies enormously across Vermont's communities. Figure 4 depicts the distribution of Vermont districts by their level of education spending. Although most districts fall around the median, as might be expected, the distribution is skewed, indicating that a number of towns spend well above the state average, while an important minority fall below it. The district reporting the highest per pupil expenditure eligible for state aid spent more than 2½ times that reporting the lowest per pupil expenditures in 1984-85, $5003 and $1835 respectively. The median for the state is $2560, nearly $2500 lower than the highest spending district, but only $725 higher than the lowest spending district. Can students who live in the lowest spending

FIGURE 3: Change in State-Local Spending from 1976 levels, 1976-1985 in 1976 dollars



towns possibly be receiving an education comparable to those who live in towns that spend twice as much?

Wealth varies even more dramatically than education spending. The Melded Wealth Index used in the Morse-Giuliani state aid formula is a composite measure of the value of property in a community and the income of its citizens. Using the state average Melded Wealth Index as a benchmark for the entire state, Vermont's richest community (Stratton, with a value of 17.48) is nearly 60 times as wealthy as its poorest (Hardwick, with a value of .30). The table that follows identifies the ten poorest and ten most wealthy towns in the state. Even the least of the wealthy towns is more than seven times richer than the wealthiest of the poor towns. These are, to be sure, the extremes, but they reflect a reality that goes well beyond these 20 towns. There are true disparities in community wealth in Vermont.

FIGURE 4: Per Pupil Spending — No. of Communities, 1984

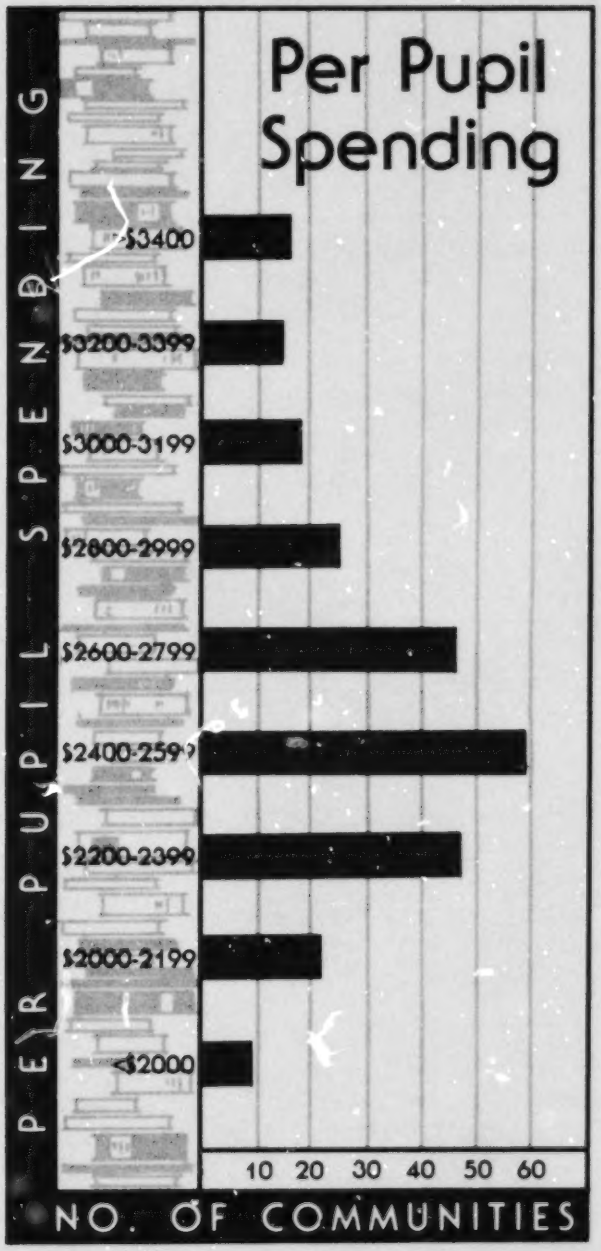


TABLE 2: Ten Most Wealthy and Ten Least Wealthy Towns

Melded Wealth Index, Vermont, 1984

Most Wealthy		Least Wealthy	
Stratton	17.48	Hardwick	.30
Winhall	11.78	Richford	.31
Victory	6.75	Brownington	.34
Sherburne	6.15	Berkshire	.37
Peru	5.86	Fair Haven	.38
Vernon	4.95	Highgate	.40
Fayston	4.28	Brighton	.44
Landgrove	3.87	Troy	.46
Sandgate	3.65	Charleston	.47
Warren	3.55	Brandon	.49

The variation in the Melded Wealth Index is due largely to the variation in its property component (called the property index), which has a much greater range than the income component (called the income index). The property in the community with the highest property index (23), is valued 59 times greater, on a per pupil basis, than that found in the district with the lowest property index (.39). By comparison, the richest community (1.69) as measured by the income index, is only 2½ times wealthier than the poorest (.67), still a highly significant difference, but not one that begins to approach the variance that exists when the value of property is used to assess wealth.

The income and property measures often are not associated with one another; communities that are considered wealthy on one measure are not necessarily wealthy on the other. This is made clear in Table 3, which arrays Vermont towns along both the property and income indices. Only sixteen of Vermont's 251 towns are found in cells with high property and income indices or low property and income indices. Most of the remaining towns fall within the middle cells, indicating a mixed picture of wealth. Table 3 also reinforces the point made above that there is greater variation in wealth measured by property than by income. Of Vermont's 251 towns, 196 communities are found in the mid-range on income while only 79 are in the mid-range when property is considered.

TABLE 3

Income Wealth Index

Property Index	Low	Average	High	Totals
Low	7	71	15	93
Average	7	69	3	79
High	14	56	9	79
Totals	28	196	27	251

Low — Less than 80% of state average.
Average — Within 20% of state average.
High — Greater than 120% of state average.

The wealth of a community is the best determinant of what it will spend, or what it feels that it can afford to spend, to educate its children. Obviously, wealthier towns can afford to pay more with less pain to educate their children than less wealthy ones. The following table indicates the importance of a community having a strong property tax base.

TABLE 4

	Current Expense Per Pupil, 1984	Effective Tax Rate, 1984
Stratton	$3682	.08
Sherburne	3845	.23
Warren	4072	.35
Vernon	3737	.56
Stowe	4466	.77
Average	3960	.40
Richford	2143	1.31
Hardwick	2570	1.63
Fair Haven	2292	1.51
Bristol	2318	1.50
Highgate	2381	1.47
Average	2340	1.47

The first group of towns is able to spend over $1600 more per student on the average than the second group, while taxing themselves at less than one-third the rate that the poor towns must levy. At these extremes, the contrasts are stark and telling: clearly wealth and educational opportunity are related in Vermont. Students fortunate enough to live in towns with a substantial property tax base attend schools that are able to offer more than students from towns with little tax base, and these students are afforded this benefit without trying the patience of voters, who need be less concerned as budgets increase.

The Tax Burden

Factors other than wealth can be important in determining educational opportunity, including a community's preference for education and its political will to mobilize support for education.

An effective tax rate is used to measure the tax burden that a community exerts in supporting its schools. It is calculated by dividing a community's equalized grand list into the local funds (property tax revenues) raised for education. The resulting figure is the amount of tax dollars raised on every $100 of fair market value in a community. Therefore, a higher effective tax rate indicates greater effort.

The differences in the effective tax rates for the following Vermont towns, with virtually identical per pupil expenditures, serve as good examples.

TABLE 5: Per Pupil Expenses and Effective Tax Rates for Pairs of Vermont Towns

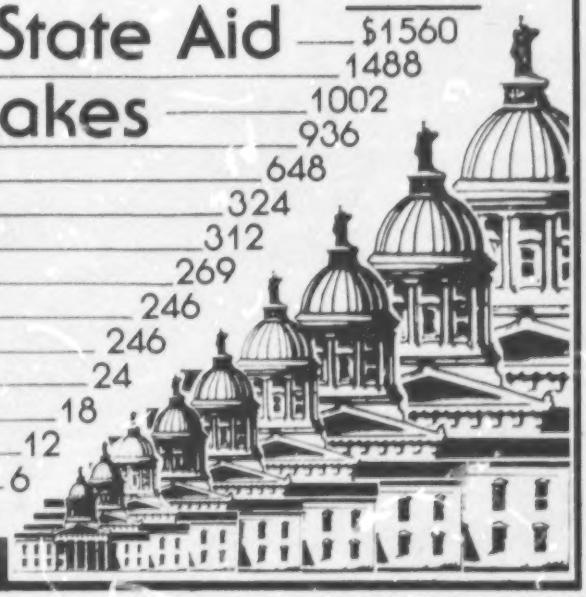
Community	Per Pupil Expenses	Effective Tax Rate
A	$2224	1.67
B	$2224	.67
C	$2413	1.46
D	$2413	.88
E	$2541	1.23
F	$2541	.65
G	$2696	1.55
H	$2696	.68
I	$3467	1.65
J	$3466	.47

The towns in Table 5 are paired according to their per pupil expenditures. Within each pair the per pupil expenditures are virtually identical, while the effective tax rates required to achieve the same level of spending are dramatically different, as much as 3½ times different in the case of towns I and J. These differences prevail at relatively lower levels of per pupil spending as well as higher levels (towns A and B, I and J). Towns with the higher effective tax rates must exert a much greater effort to achieve the same level of spending for education as those with lower effective tax rates. In some cases, the income of residents may be sufficiently high to make the choice to levy higher taxes more palatable, but this is by no means always true. The residents of some towns will sacrifice more for their children's education than will those of other towns.

To conclude from these examples that state aid does not make a difference would be a mistake. The towns in Table 6 are arrayed from the least to the most wealthy. The columns represent the estimated property tax on a

TABLE 6: Tax Effort and Property Tax of Selected VT Towns to Support $2860 in Per Student Spending, FY 1985

Town	Estimated Property Tax on a $60,000 Home with State Aid	without State Aid	The Difference State Aid Makes
Hardwick	1152	2712	$1560
Fair Haven	1200	2688	1488
Bristol	1206	2208	1002
Enosburg Falls	1182	2118	936
Bennington ID	942	1590	648
Brattleboro	702	1026	324
Rutland City	816	1128	312
Colchester	1009	1278	269
Canaan	978	1224	246
Ferrisburg	786	1032	246
Burlington	600	624	24
Ludlow	486	504	18
Vernon	300	312	12
North Hero	396	402	6
Sherburne	114	120	6



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house assessed at $60,000, with and without state aid in FY 1985, assuming an expenditure of $2860 per pupil. It is glaringly obvious that the poorer towns could in no way afford to provide for the education of their children without state aid. In Hardwick, for example, taxes would more than double, increasing from $1152 to $2712. For towns in the middle of the table, state aid may not be enough, but it does represent a cushion that eases the burden of paying for schools. The wealthiest communities are unaffected by the absence of state aid. Vernon's tax would increase only $12.

While the system has been seriously strained over the years, because the state has failed to fulfill its share of the education partnership, state aid does make a difference. Without it, children in many Vermont communities would be denied educational opportunities afforded those who live in wealthier towns and cities. The system as it currently operates may not be the best, and it is seriously underfunded, but it is impossible to imagine education in the state without it. The issue is not whether there should be state aid. The questions are: which set of taxpayers, payers of the property tax or payers of the more broad-based taxes, should foot the bill for education; should the focus of aid be the student or tax relief; how much is enough to get education funding back on track; how are communities persuaded to spend enough to educate their children?

HISTORY OF STATE AID IN VERMONT

Two things stand out when one looks at state aid from an historical perspective. First, regardless of the system in place, state aid has always been controversial in Vermont. Second, substantial progress has been made from the advent of state aid to the present system.

Early Principles in Vermont Education

Public education has existed in Vermont since the colonial era. As in the other New England states, public education was felt to be essential to the well-being of the community. When Vermont framed its Constitution in 1777, several provisions of that document cited the need for some form of public schooling. Yet, it was not until the early 1900s that the state government began to take an active role in supporting the schools. At that time, Vermont established its first system of state school finance.

Early efforts by the state to aid local schools came in the form of grants to districts to defray the cost of administrators' and teachers' salaries. Before this, localities paid all education expenses.

In 1935, a study commission recommended that state aid be based on the concept of equal educational opportunity with aid distributed through a formula that assigned values to students based on a standard of relative need. The standard was designed to direct a disproportional share of aid to rural school districts. In 1947, the Vermont Legislature passed a bill that established a formula for state aid distribution. This formula was based on municipal tax burden and education spending. Under this system, aid benefited communities with higher tax burdens and higher education spending.

The Recognition of the Impact of Community Wealth

A new era in state funding began with the passage of the Hunt-Simpson formula in 1964. Recognizing that a community's wealth often is the prime determinant in its ability to support its schools, Hunt-Simpson distributed equalization aid based on the relative wealth of Vermont communities. It set a minimum school program expenditure level and then distributed aid to make up the difference between the revenues a district could generate at a tax rate of $1.25 on its grand list and the minimum program spending level.

The imposition of a minimum tax effort by Hunt-Simpson created public discontent. Largely due to the resulting public dissatisfaction, the Miller formula replaced Hunt-Simpson in 1969. It contained many of the same ideas as its predecessor, but incorporated an improved way of relating a district's wealth to its level of spending. The Miller formula was based on the principle of percentage equalization, which means that districts of equal wealth (based on property valuation) received the same percentage of state aid if their spending levels were identical. The virtue of the formula was that it reduced the constraints imposed by a community's wealth level on its level of student spending, yet still allowed for choice in setting local tax rates.

With the passage of the Miller formula, the Legislature also greatly boosted the level of state appropriations to be distributed through the formula. In the ensuing years as state aid leveled off and the local cost of education continued to escalate, dissatisfaction with the formula grew. This was largely because many districts which received state aid funds when the formula was first adopted, lost much of their aid as the state level of appropriations became a smaller portion of all education expenditures.

In response to the calls for change, the Legislature enacted several modifications to the basic Miller formula. These periodic changes in the formula directed aid to those districts that were losing their funds because of the low level of state appropriations. The effect of the changes was that there was less aid for the formula to distribute to the poorest districts.

Among the attempts to modify or replace the Miller formula were the Vermont and Snelling Plans. These finance programs never were enacted but they attempted to address the problems associated with insufficient state appropriation levels. The Vermont and Snelling plans called for a statewide property tax on commercial and industrial property to raise additional state revenues.

The Morse-Giuliani Formula

Finally in 1982, the Miller formula was replaced by

the Morse-Giuliani formula. This formula, which is currently in use, is based on principles much like those of the Miller formula but includes several refinements.

The most important change in Morse-Giuliani is the inclusion of an income factor which broadens the way a community's wealth is calculated. By expanding the wealth component, the formula considers the differing abilities among communities to pay their tax bills. Another improvement is that the property and income factors used to determine relative community wealth now are averaged over a three-year period. This process "smooths" out large changes in the wealth data so that state funding levels are less apt to fluctuate radically from year to year.

Morse-Giuliani also incorporated a "listing penalty." The listing penalty is a provision in the formula that encourages communities to keep their local grand lists near fair market values by penalizing districts whose grand lists are substantially lower than their equalized grand lists by withholding part of their aid.

Lessons from State Aid History

Writing in 1962, John Holden, former Commissioner of Education in Vermont, said that state aid is "one of Vermont's most complex and stubborn problems —one which must be solved if education is to move ahead." He was right, but he could have been writing in 1935, 1947, 1969, 1982, or 1985. The problem does not go away, and it does not get solved for all time. For a variety of reasons, discontent emerges and grows, often because the Legislature fails to meet the expectations it has established.

This discontent should not mask the fact that substantial progress has been made. Over the years Vermont has progressed from a system in which a child's education was wholly dependent on the wealth and commitment of the community in which he or she lived to one where differing levels of wealth are taken into account, albeit imperfectly. A valuable lesson from state aid history is that it is all too possible in the controversy surrounding state aid to lose track of the system's purpose — enhancing children's opportunities to receive a good education.

STUDENT EQUITY AND FAIR TAX BURDENS

The following does not offer an exact "recipe" for a new system of state funding, but it does outline broad principles that can guide the search for an improved method of education finance in Vermont.

It does this by outlining ways in which any system of education finance can be judged based on its fairness and then turns to an evaluation of the present Vermont system based on these measures of fairness.

Education and Equality

The idea of equal opportunity, whether it be for students or any other class of citizens, is ingrained deeply within American institutions. The Constitution of the United States incorporates the idea of equal protection in the Fourteenth Amendment, where it is stated that no state shall violate this fundamental right.

Equal opportunity in public education has a long history. Horace Mann, an eminent American educator of the mid-19th century, suggested that "the theory of our laws and institutions undoubtedly is, *first,* that in every district of every town, there should be a free district school, sufficiently safe, and sufficiently good, for all the children within its territory . . .".

Since Mann's day, there has been an ongoing debate on what constitutes equal opportunity in education. In the 1950s, '60s and '70s, the public debate widened and a series of legal decisions at state and national levels gave added impetus to the discussion. Taken together the effect of these court decisions has tended to expand the meaning of equal opportunity in American public schools. Largely because of these legal decisions, the public schools across the country are supposed to provide equal opportunity to all students regardless of a student's race, sex, native language, or learning impairment.

Except for individual states, the question of what type of school finance system is required to provide students with equal opportunity has not been answered conclusively by the courts. In Vermont, the courts have not yet been required to address the issue.

In the absence of legal prescription, it may be helpful to examine the varying ways that equal opportunity can be defined and then to consider the implications of these definitions for different methods of school finance.

First, it would be helpful to consider why it is commonly assumed that all children are entitled to equal educational opportunity. The premise supporting this assumption is that all children require a good education as a means of ensuring that they will become productive citizens. In essence, this boils down to the notion that people's education not only benefits them personally, but it also serves to promote the greater good of the society as a whole. Ways that public education can benefit society as a whole include the ideas that education helps promote a citizenry capable of informed judgments in the democratic political process and it serves to integrate society by developing a range of common value among citizens. These and other societal benefits serve to integrate the state and ensure productive participation by most individuals within the state.

If it can be agreed that equal educational opportunity is necessary for all public school students, then the next consideration involves how to structure equitably an education funding system to provide equal opportunity.

The question of fairness or equity is at the heart of the controversy concerning equal educational opportunity. Broadly speaking, there are two separate, but interrelated, issues involved in analyzing whether a particular finance system is equitable. These are student equity and tax burden. The latter is concerned with the fairness of the system of taxation used to raise funds to support the schools and student equity is related to how fair school systems are in educating children.

Equity for Students

While student equity can be looked at in a number of ways, all revolve around one idea: children should have a similar, if not equal, chance to obtain a good education. A number of factors can be considered in measuring how equitable an educational system is. These factors range from resources for education to the outcomes of education.

On the one end of the spectrum, one can consider the actual resources that are available to different students in a particular school district or across a number of districts. Important resources found in a school gener-

ally can be measured in dollars and cents, e.g., teachers' salaries or the cost of books and other materials. At the other end of the spectrum, one can look at measures of equity such as how children's education affects their life opportunities. While some outcome measures, such as a person's level of income, may seem easy to measure, there are so many factors bearing on how and why people earn different levels of income that it is difficult, at best, to determine the exact influence of the quantity and quality of an education in this.

Between resources and outcome measures fall ways that one can measure the more immediate results of a child's education. These include student grades, achievement test scores, levels of student satisfaction, and other forms of student follow-up. While information on these measures often can be obtained fairly easily, it is often difficult to trace the exact effect of schooling on them. For example, studies generally have shown that the most important determinant of test score results tends to be a child's family and social characteristics, rather than the schooling he or she receives.

Because of the conceptual and logistical problems associated with outcome measures, policymakers have tended to concentrate on assessments of resources when they make decisions about school finance systems and how they affect children's educational opportunities. That is why most of the discussion surrounding various forms of financial aid to schools centers on such items as the amount of money invested in a child's education. In other words, while we cannot control many of the factors influencing a student's schooling (e.g., attitudes toward education in a family or community), the amount of money spent on educating a child is controllable. By allocating funds from the state level in such a way that all districts, regardless of their level of wealth, can afford to spend an adequate amount to support their schools, one can ensure that children will have a greater chance at receiving a good education.

Fair Tax Burdens for Taxpayers

If student equity depends, in part, on the fairness involved in determining funding levels for children, then it's important to consider how school funds are raised and from where the money comes.

Fair treatment of taxpayers depends on how a system of taxation distributes tax burdens to support public services. Since school budgets consume the largest share of local tax revenues for most Vermont communities, it is particularly important that the school tax burden be distributed fairly within a community and across all Vermont communities.

The distribution of tax burdens involves several factors which ultimately influence the amount of money spent on a child's education. Basically, the taxpayer issue evolves around three concepts: (1) tax burdens; (2) the ability to pay taxes, or wealth; and (3) preferences for school services. In many ways, it is the balance of these three concepts that results in the type of state funding system that is adopted.

Tax burden reflects the effort extended by taxpayers to raise funds for public services. Burden can be viewed at the level of an individual citizen, at the district level or at the state level. Differences in tax burdens are a function of relative wealth and preferences for education services. A school district's decision to spend at a certain level gives an indication of its preferences for a particular kind or quality of education. However, a district's wealth (usually measured in terms of some combination of local property and income wealth) is the prime determinant in how much tax burden that district must bear to raise the funds needed to support its preferences for education spending.

Fairness in the distribution of tax burdens is achieved when the differences in communities' wealth are "neutralized" or reduced so that a community can act on its preferences for education services without bearing an inordinately high tax burden. To do this, some form of outside funds are required to reduce the differences among communities' tax burdens and education spending. In Vermont, as with most other states, this process is accomplished through a system of state revenue subsidies.

While state subsidies come in many forms, the only type of subsidy that inherently attempts to address the issue of tax burden fairness is equalization aid. State equalization aid can target funds to districts in many different ways, but nearly all state aid systems attempt to equalize tax burdens and education spending across districts. Equalization aid generally tries to ensure that a district's wealth or ability to pay is *not* the prime determinant in how much a district decides to spend on its schools.

While student equity and fairness of tax burdens are not necessarily tied to the same principles, they are both integral to producing a system of schooling that enhances equal educational opportunity for children. When taxpayer burden is leveled, all communities are in a better position to finance adequate education programs. In turn, by ensuring that all communities can provide an adequate education, student equity is enhanced. Clearly, when schools are capable of spending at similar

levels, one important factor in student equity is promoted.

Equality in spending is only one dimension in student equity but, by equalizing spending opportunities, an environment is established that can lead to greater taxpayer satisfaction and improved student achievement and life opportunities.

Equalization Aid and Equity in Vermont

When the subject of state equalization aid arises, there are generally three factions that form around the issue. The first are the "winners." These are the people who live in communities that receive relatively large amounts of state aid. The next are the "losers." These people are from areas receiving little or no aid. The last, a relatively small group, are people from communities that, because of their high local wealth and relatively low tax effort, simply do not require outside funds to help finance their schools.

Depending on which group people falls into, their appraisal of the fairness of the state aid system can vary greatly. More often than not, the winners feel the system is quite equitable, the losers express dismay over its inequities, and the wealthy minority say little or nothing about the situation.

Given these disparate positions, it is difficult to evaluate Vermont's situation "objectively." Nevertheless, many things can be said about the fairness of state aid. Some statements are based on "facts," but most rely on value judgments as a basis for deciding the relative fairness of any given proposal.

There are four critical factors involved in the state aid question: (1) spending; (2) tax effort; (3) wealth; and (4) state funding levels. While each of these was discussed earlier, here they will be reviewed as they relate to the state aid formula.

Spending on Education in Vermont

There is a large difference in the amount spent across Vermont on a student's education. This difference is more than $3,000 in the current school year. The important questions are why is there such a large difference, and is the disparity in spending levels fair? The three most important factors in answering this question are: relative community wealth; preferences for education services; and the structure of the state aid system.

It is an undisputed fact that the poorest communities in the state do not have the wealth base to support an adequate level of education spending. It is also likely that many relatively low spending communities, whether very poor or not, would not choose to spend at much higher levels, even if given the choice and wherewithal to do so. These communities are fairly happy with their schools as they are. Given differing wealth levels and preferences, one then needs to look at how the state aid system affects spending levels.

The Morse-Giuliani formula distributes aid based on two key factors — spending levels and relative wealth of different communities. The poorer a district, based on its property and income wealth, the greater its state share or subsidy. However, Morse-Giuliani allows districts to choose their own level of expenditure per child. So, for a given year, a district can decide how much it is going to spend, knowing at that time that the state will provide a certain percentage of the chosen budget figure.

The effect of the state aid formula is not so much to equalize spending across all districts, but to encourage poor districts to spend at a higher level than they could without state aid. In other words, districts receiving aid can spend at whatever level their pocketbooks and preferences allow, knowing that the state will cover a set percentage of every dollar that they choose to spend.

Fairness in this type of system results from a value judgment that absolute equality of spending is not necessary for the system to be equitable. Under Morse-Giuliani the state does not tell communities they cannot spend more than a certain amount, nor does it say that all districts should spend up to a minimum or "adequate" level. The question of fairness then becomes one of whether the formula distributes money in such a way that community preferences for spending, as opposed to wealth, are the prime determinant of education spending levels.

It could be said that the present formula does a good job in reducing the influence of wealth on spending levels. The poorest districts receive state aid at almost $.70 for every $1.00 that they decide to spend on their schools. Yet, most of the poorest districts in the state spend less than the state average and while some of these districts have below average tax efforts, other districts must strain their tax capacity to spend at or below the state average. These facts bring up the question of whether a community's wealth still has too much influence over education spending levels.

The question of whether preferences or wealth plays the key role in determining spending levels is confounded by how one measures a community's perferences for education. The formula does this by letting districts set their own expenditure level, but this measure of preference is influenced by a community's

wealth as it relates to tax effort.

A high wealth district generally can spend at whatever level it chooses with little regard to its tax effort. Poorer districts must consider their spending decisions more carefully since their wealth constrains their spending. Still, even the poorest districts, with the help of state aid, have the choice of whether to tax themselves heavily in order to spend at higher levels. In Vermont, some do and some do not, so to some degree, preferences are shown.

Regardless of the difficulty in sorting out the respective roles of wealth and preferences in communities' decisions about education spending, Vermonters must be prepared to make decisions. These decisions will involve value judgments. Important questions to be addressed include how much difference in education spending across school districts is too much and whether a community's preferences for school support always can be honored, regardless of their consequences for the students involved.

Wealth and Tax Burdens in Vermont

The relative wealth and tax effort of a community bear directly on the question of fair tax burdens. Basically, the issues to be considered relate to the reduction of the effect on school tax efforts that the disparity in wealth causes among communities.

As with education spending, there is a very large difference across Vermont in local wealth and tax effort of communities. There are communities in the state that can be considered as much as 20 times "wealthier" than the average Vermont community, and there are communities that exert less than one-tenth the tax effort as the average Vermont community.

Probably the most frequently voiced criticisms of the state aid system have to do with the question of what constitutes a community's wealth. There is a deep division in Vermont between proponents of the income measure as opposed to the property measure. The reasons for the intensity of emotions invested in this issue are easily discernible when the role of wealth is understood in the state aid formula.

The Morse-Giuliani formula distributes equalization aid based on two factors. These are the relative wealth of a community which measures the local financial "need" of that community, and education spending of a community which measures the local tax effort exerted and local preferences for education services. The calculation of the percentage the state will pay of a district's expenditures is determined largely by a community's need or wealth. Consequently, there are very high stakes attached to the way wealth is measured in the formula.

The measurement of wealth is complicated by several factors. First, it is important to understand that Vermont communities not only differ greatly in their relative wealth, but also in the relationship between their levels of property and income wealth. There are communities that are "property rich," but are poor in terms of disposable income. Conversely, some "income rich" communities do not have a large grand list, when compared to their number of school-age children, from which to support their schools.

Because there is a fairly low association between income and property wealth for many communities, it is difficult to evaluate communities' relative wealth based solely on property or income levels. This is why the present state aid formula uses measures of both property and income wealth in determining a district's overall or "melded" wealth. Further, the rationale for combining the two measures of wealth is based not only on what they measure, but also what each wealth measure fails to consider.

Although property wealth is the traditional standard of a school district's wealth, it can be argued that for many citizens and school districts, property wealth does not reflect their *ability to pay* taxes. In other words, an individual can own property that has a high assessed value, yet not have enough income to pay a high levy of taxes on that property. This tends to be particularly true for farmers and people on fixed or low incomes.

Income wealth is a recent addition to the state aid formula's measurement of relative wealth. Its incorporation in the Morse-Giuliani formula was a result of the ability-to-pay argument. But, opponents of the use of income as a measure of community wealth generally point out that income wealth, unlike property wealth, does not reflect the different *tax efforts* exerted by communities in raising local revenues to fund school services. This is because in Vermont local revenues to support the schools are raised by taxing property. Therefore, the property tax effort of a community reflects its decision on how much collective burden it will bear to support its schools.

The reason for including both property and income wealth in the equalization formula is because the two measures often are not associated closely for a given community. The combination of the two measures is meant to be complementary, with each measuring a different element that determines community wealth. That is, property wealth evaluates relative effort or tax capacity while income considers the issue of the ability

of citizens to pay their taxes.

While more research is needed to evaluate the roles of property and income in the measurement of community wealth, there are some additional issues that should be noted about how the present formula calculates wealth. It often is noted that property wealth "dominates" the melded or combined wealth measure as it is calculated in the formula. This is, in fact, the case for many communities. The dominant role of property in the calculation of a community's melded wealth stems from the greater variability of property wealth when compared to income wealth.

Two factors account for the much greater variation found in the property measure of wealth. First, there simply is much more variation in property wealth values than income values across Vermont school districts. The highest property wealth districts tend to be areas with concentrations of vacation homes, or the sites of large commercial or industrial businesses. Districts where property is predominantly residential or undeveloped land *generally* do not have high property values.

Along with tangible factors, such as ski areas, vacation homes, or large industries, there are intangible factors that can affect the value of property. This is particularly true for districts near highly developed areas. Though these areas may not have a large number of vacation homes, the real estate in the district comes under increasingly competitive market forces which can drive up the price of land without proportional expansion in the actual real estate base of the district. In this type of situation, a community's property wealth can increase without a proportional increase in local income, housing, or commercial/industrial businesses.

Districts affected in this way are considered "richer" by the formula and, therefore, they receive less or no equalization aid. This means that the tax efforts of these communities must increase to produce more local revenues.

While inequities in the distribution of equalization aid can stem from this type of situation, there are mechanisms which try to limit this effect. First, the formula averages grand list values over a three-year period so that large fluctuations in a given year are "smoothed out." Also, there is a state property tax rebate program for low income citizens, plus preferential tax programs for owners of undeveloped land, that attempt to redress the inequities which can result from escalating property values.

A second reason for the difference in the variability of property and income as measured in the formula results from an artificial constraint placed on the income measure. Morse-Giuliani limits the income measure so that the value of a community's income cannot be more than 20 percent greater than the Vermont state average income. Without this limit on the upper value of the income measure, some communities would have an income value that is more than 40 percent greater than that used in the formula.

Though the limited or "clipped" income measure is not the primary reason for the predominate role of property in the combined measure of wealth, it does contribute to the relationship. It also makes some communities appear to be less wealthy in the distribution of state aid than they would be if their wealth measure was set at its "real" level.

There are two other frequent criticisms of the measurement of wealth that should be discussed here. These criticisms result from problems that arise because of possible inaccuracies in the data used in the formula and used by districts in computing local tax rates. One of these issues is related to the property measure and the other involves income.

The property measure in the formula is based on property values from the equalized grand list of a community which is determined by the State Division of Property Valuation and Review. The issue, in this case, has less to do with accuracy of the equalized property values used in the formula than it does with the property values of the local grand lists used to compute local property owners' taxes.

Frequently, the local grand lists are not updated through reappraisal. Because of this, they tend not to reflect the fair market value of the properties in these communities. This puts a higher burden on owners of real estate that changed hands in recent years and, therefore, is appraised closer to the market value than the bulk of properties in a district. The result of these disparities is that the local tax burden falls disproportionately on owners of recently purchased property.

The equalization formula addresses this problem by assessing a penalty on districts whose property valuation is significantly less than the fair market value as represented by a district's equalized grand list. Up to 20 percent of a district's state aid can be withheld for a given year if the district's local property valuation reflects this type of inequity.

The last criticism of the formula's measurement of wealth focuses on the way a community's income wealth is calculated. Morse-Giuliani uses a district's median adjusted gross income (MAGI) as the measure of the relative income wealth of a community. MAGI values are calculated for each district from Vermont

state income tax reports.

There are potential problems with the use of MAGI to represent a district's income wealth. The problems have to do with reliability of the MAGI figure in assessing the income wealth of a given community. There are some indications that MAGI fails to reflect the true income level in a community because it does not include income figures for several types of residents. For example, when a tax form is filed jointly by a husband and wife, the reporting system only recognizes the return as being from one person. This tends to overestimate the personal income associated with this type of return.

A similar problem also can occur when low income residents do not file tax reports. In these cases, where income is overestimated, a community would appear richer in income than it actually is. An unanswered question is whether these distortions affect communities differentially or they tend to even out across the state.

Taken as a whole, the various problems that are associated with the measurement of relative wealth do cause inequities in the distribution of equalization aid. Some of these problems, such as the decision to include or exclude property or income from the formula, require further research to evaluate the effects of the different options. Other problems can be addressed more simply since relatively minor modifications can improve the distribution of aid. For instance, the modification of tax forms or reporting procedures could enhance the reliability of the income measure. At the same time, other inequities are difficult to resolve at the state level since they reside at the community level, as is the case with disparities in property appraisals.

While these problems must be addressed, the search for solutions should be guided by a central principle. That is, the elimination of the basic inequity in education spending that arises because of the differing wealth of communities across Vermont. So long as wealth differences affect the ability of communities to provide an adequate education for all the state's children, controversies will remain concerning how to eliminate this basic inequity.

State Funding in Vermont

When compared to most states, Vermont's state government provides a small percentage of the total revenues used to support education. Also, state support in Vermont has not kept pace with the increased cost of expanding education programs or, for the most part, with the cost of living. It probably would be fair to say that the pattern of state funding for education is one of "fits and starts." Periodically, the state infuses large amounts of additional dollars and then, as other matters become pressing, new education revenues are reduced to a relatively moderate level.

With the current public pressure to change the method for distributing equalization aid, it is important to consider the effect of state funding on students and taxpayers.

The Morse-Giuliani formula and its predecessor, the Miller formula, are structured to be more equitable at a set level of state funding. The often-mentioned funding level is 40 percent of all education expenditures. While the figure is somewhat arbitrary, it does give an indication of the level of funding that is most equitable. This is because at the 40 percent level the formula has enough funds to distribute to ensure that most districts needing outside financial support will receive at least some funds.

To understand how the formula works, a person must realize that while more money in the formula means that high need (low wealth) districts would receive more funds, the bulk of new funds invested in the formula would be distributed to the less needy districts. Also, most "marginally" wealthy districts would receive at least some state equalization subsidies when the formula is funded at the 40 percent level.

While the formula is more equitable at higher levels of funding, this does not mean that at lower levels it is unfair. When provided with fewer dollars to distribute, the formula "protects" the poorest districts first, which means the less needy districts are most affected by low levels of state support. This is why communities "fall off" the formula when the state funding level declines in relation to total school expenditures.

Relatively low state support then can be seen as a major cause of public dissatisfaction with the equalization system. At lower funding levels, there have to be more "losers," with the last of the lot being fairly hard hit. Therefore, there is more concern with the inequities of the system.

As the list of losers grows, a frequently suggested way to remedy the inequities of the formula is to increase the flat grant component. The flat grant currently is a $100 per student subsidy that all districts get regardless of their wealth. Though increasing the flat grant can be done so that funds are directed to the more needy floor towns, the effect is that equalization revenues do not get distributed by the formula to the poorer communities in the state. Manipulating the aid system is a "band-aid" approach to curing the inequities of the formula. The only way that relatively needy floor towns can

expect a reliable source of aid is to ensure that the formula has sufficient funds to distribute.

Another issue associated with funding levels is the effect that state revenues have on education spending and property tax relief. Important in this consideration is whether state aid is meant to support increased education spending or offer local relief from property taxation. It would probably be safe to say that the intent of many legislators for providing additional funds for state aid is tax relief. And while this could be considered to be a limited perspective as to the role of state aid, in the end what matters most in the net effect of additional funds.

Whether money infused into state aid goes to homeowners by way of reducing their tax bill, or directly to education spending, the effects often can be considered to be complementary. Basically, when state aid is used to reduce local property tax burdens, it can, in the long run, reinforce a community's ability to raise local funds for its schools. Without state aid or without sufficient quantities of aid, less wealthy districts' property tax bases would be so overburdened that it would be difficult for these communities to support their schools at their present levels, let alone increase the level of their school support.

The subject of property tax relief obviously is a legitimate concern. Too many communities in the state rely heavily on what can be a regressive and unpopular tax. A subject often neglected in the discussion on state aid and property tax relief is the decision of whether Vermonters want to fund increased education costs through property taxes, as generally has been the case, or through the more broad-based taxes at the state level. There is a choice as to how the education bill will be paid. This is another decision that must be made.

Formulas and Fairness

As has been discussed in this section, there are numerous issues concerning the Morse-Giuliani formula's capacity for equity. Several types of inequities were cited and reasons for their presence considered. Morse-Giuliani, like any equalization formula, attempts to fashion a system based on certain principles in response to a need — a good education for all children. The formula, in effect, is a model of the Vermont situation, and like any plastic model, it is rigid and can only approximate the reality it tries to imitate. Therefore, inequities are bound to occur. Further, when the formula is manipulated so it no longer operates as it originally was designed, the end result often is an increasingly distorted picture of the Vermont scene.

If Vermonters do not believe that the present formula offers a good model for the state, then it is time to consider alternative systems of funding for our schools. But, it would be naive to believe that there is any formula that would not cause inequities and dissatisfaction in the process of distributing equalization aid. So long as there are winners and losers created by a system of state finance that tries to promote equal educational opportunity, there will be conflict associated with that system. Whatever system is adopted, students should not be the losers.

PRINCIPLES TO GUIDE STATE AID REFORM

This booklet has two aims. The first is to provide useful information on state aid. In the process of presenting this information, we have tried to make a case for a state aid system structured on the broad principles of equal opportunity, fair tax burdens, and adequate funding levels. In other words, a state aid system that makes a difference for Vermont's children.

The other aim of this booklet is to stimulate public debate about state aid. A series of public meetings and media events around the state will follow the publication of this booklet. The advice gained from these forums will provide the Governor, Legislature, and State Board of Education with a perspective on what Vermonters want from their system of state aid. With this information in hand, the State Board will develop a set of principles on how an alternative state aid scheme should be structured. These principles will serve to guide the research of the Department of Education in its evaluation of different state funding options. The ultimate goal of the research will be the endorsement by the Governor and Legislature of a funding formula in 1987.

Whether or not you agree with the information presented, we hope you will participate in the upcoming debate on state aid. Your concerns will help shape the statewide debate. To provide a starting point for the discussion of state aid, we offer the following questions. We believe that the answers to these questions are essential to the future direction of state aid reform for Vermont.

(a) What is an appropriate level of education spending for any school district?

(b) Should disparities in local community wealth be allowed to be the major determinant of spending on a child's education?

(c) What role should community commitment or preferences play in determining the extent of local education services?

(d) Should state aid be linked to standards of education quality or accountability?

(e) Should there be a minimum level of local tax burden in Vermont? Should there be a maximum level of local tax burden? Should there be absolute equalization of local tax burdens?

(f) What constitutes the wealth of a community (property values alone or income levels alone or some combination of the two)?

(g) Are the differences in community wealth, as they exist in Vermont, reflected in the factors of community wealth as measured by the present formula?

(h) What revenue sources are needed at the local and state levels, taken together, to raise funds for education?

(i) Is there a necessary level of state support to ensure an adequate education for all Vermont's children and to ensure appropriate relief for property taxpayers?

APPENDIX

HOW DOES VERMONT'S PRESENT STATE AID FORMULA WORK?: AN EXPLANATION

The Morse-Giuliani state aid formula has three different components: (1) flat grant aid; (2) equalization aid; and (3) a listing penalty. Each is calculated separately and the result is added to or subtracted from the other components to produce the state payment to a school district.

STATE AID = FLAT GRANT AID
+ EQUALIZATION AID
- LISTING PENALTY

In FY 1985, the flat grant component distributed about $9.4 million. That left about $61.5 million of the total appropriation of $70.9 million to be distributed by the equalization formula. The listing penalty, if applicable, is deducted from the sum of equalization and flat grant aid due to a school district in order to arrive at the final district payment of state aid. In FY 1985, deductions for the listing penalty totaled about $42,000. Actual payments to a school district are made twice during the fiscal year. Sixty percent is paid on December 1 and the remaining forty percent, less any penalty, is paid on May 1.

Flat Grant Aid Formula

FLAT GRANT AID = ADM × $100

Every school district receives $100 for each student in long term average daily membership (ADM). ADM is computed from a district's enrollment over two 30-day periods during the school year. This amount is granted regardless of the relative wealth of the district. Long term means that ADM is averaged over the most recently available three years.

Equalization Aid Formula

ADJUSTED AND CAPPED CURRENT EXPENSE (ADJCE)
APPROPRIATION CONSTANT (K)
PROPERTY WEALTH INDEX (PI)
INCOME WEALTH INDEX (II)

$$\text{EQUALIZATION AID} = \text{ADJCE} \times (\underbrace{1 - \overbrace{(K \times PI \times II)}^{\text{LOCAL SHARE}}}_{\text{STATE SHARE}})$$

The equalization component is based on the relative wealth and spending of a district and, therefore, contains factors to describe these items. The formula is computed in three steps.

First, a district's local share is determined. The local share represents the percentage of expenses that a district will pay, as determined by the state aid formula. Then the local share is subtracted from one (1) to determine the state share. As with local share, the state share is exactly what it sounds like — the percentage of a district's expenses that the state pays. Finally, the actual amount of the state payment to a school district is determined by multiplying the state share or percentage by the district's adjusted current expenses.

Below is a more detailed explanation of the factors making up the local and state shares, and adjusted expenses.

Local Share

The local share is calculated in two steps. First, two variables describing the wealth of a district are multiplied. These variables are the property wealth index (PI) and income wealth index (II). The property index (PI) represents the comparison between the property wealth per student of a district and the state's average property wealth per student. The data used to compute the property index (PI) are a district's equalized grand list (EGL), average daily membership (ADM), the state's total equalized grand list (EGL), and the state total average daily membership (ADM). The income index (II) represents the comparison between a district's average or median income per tax return and the state's median income per tax return. The data used to compute the income index (II) are a district's median adjusted gross income (MAGI) and the State's median adjusted gross income (MAGI).

A district's combined property and income wealth

then is calculated by multiplying the property index (PI) and the income index (II) together. The resulting figure, often called the melded wealth index (MI), provides an overall measure of a district's wealth when compared to other Vermont districts.

The second step in determining a district's local share involves multiplying the melded wealth index (MI) by the appropriation constant (K). The appropriation constant (K) is determined by the amount of the state appropriation relative to total local spending and adjusts the local share of each district so that only an amount equal to the state appropriation is distributed by the formula.

State Share

After a district's local share is determined, it is easy to compute the state share. Since the local share is the percentage of expenses the district will pay, the state share is computed by subtracting that percentage from one (1). In other words, the state's share of a district's expenses is the percentage of expenses left after the local share is determined. For example, if the local share is 60 percent, the state share will be 40 percent.

Adjusted Current Expense

While the state share gives the percentage of expenses to be covered by equalization aid, the adjusted current expenses (ADJCE) of the district is the figure used to determine the actual amount of aid to be received. Adjusted current expenses (ADJCE) are not the total expenses of a district, but rather a subtotal of all expenses. The law allows certain types of expenses to be included in calculating aid. Basically, the expenses allowed are those covered by a district's local tax receipts and equalization aid. Most money spent by a district from federal revenues, tuition receipts, the state's flat grant and categorical funds, and capital outlays are not eligible.

After these revenue sources have been subtracted from the total expense figure of a district, there is one other adjustment, though it affects relatively few districts. Expenses are limited for those districts which spend over the state average on a per student basis. Only 25 percent of the expenses over the state average are eligible for inclusion in a district's adjusted current expenses (ADJCE) figure. After determining the adjusted current expenses (ADJCE) figure, it is multiplied by the state share and the resulting value is the amount of equalization aid a district will receive that year.

The Listing Penalty

LISTING PENALTY = (.8 - (LGL/EGL)) × .25 × STATE AID

The formula computes the ratio of a district's local grand list (LGL) to its equalized grand list (EGL). The resulting value then is subtracted from .8 (representing 80 percent of the equalized grand list). Then multiply the difference by 25 percent of the state aid payment.

The state aid listing penalty is assessed against the state aid of a school district and it may never be more than 20 percent of the total aid payment. The intent of the penalty is to encourage towns to keep local appraisals close to 100 percent of fair market value. The penalty is assessed if a town's local grand list (LGL) is less than 80 percent of the equalized grand list (EGL) certified one year preceding the year of state aid distribution.